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SUBJECT: CONSERVATIVE PARTIES PONDER A MERGER

Classified By: Political Counselor James F. Cole for reasons 1.4 (b) and (d).

¶1. (SBU) SUMMARY: The November election loss has created unprecedented momentum for a merger between the Liberal and National parties (who are in coalition at the federal level). The departure of former Prime Minister and Liberal Party leader John Howard, who opposed a merger, and the situation of being in opposition nationally and in every state and territory in Australia have emboldened Coalition MPs to push for a union. Supporters argue that the National Party is in irrevocable decline due to demographic changes; and that one brand name, a pooling of resources and decreased administration costs would enable the conservative parties to better compete financially with the Australian Labor Party (ALP) and the unions. Opponents of the merger believe a combination with the Nationals would drag the Liberal Party too far to the Right and leave a vacuum for another country-based party to fill. Further complicating matters, the state branches of each party (who often oppose each other) would need to agree to any merger. This issue has the potential to cause significant disharmony in the Coalition and, as a result, has implications for Brendan Nelson's leadership. Momentum for a merger will increase if the Nationals perform badly in an imminent by-election caused by the departure of Nationals MP and former Howard Government Agriculture Minister Peter McGauran, who announced his resignation on April 3 from his federal seat in Victoria. END SUMMARY.

HOWARD DEFEAT CLEARS THE WAY

¶2. (SBU) John Howard vehemently opposed a merger of the Liberal and National parties, believing it would lead to the creation of a country-based party similar to Pauline Hanson's nativist One Nation Party that threatened to siphon off support for mainstream conservative parties in the late 1990s. In 2006, along with then Nationals' leader Mark Vaile, Howard played a major role in scuttling plans by the Liberal and National branches in Queensland to form the "New Liberals" to take on the dominant ALP state government. With the Howard Government defeated, the merger is back on the agenda in Queensland and some Federal Liberal MPs are promoting a national merger with the Nationals.

DOES THE NATIONAL PARTY HAVE A FUTURE?

¶3. (C/NF) Supporters of a merger argue that the National Party's demise is inevitable and that the party should merge with the Liberals while it still has some pride left. Liberal Party moderate and Shadow Minister for Health and Aging Joe Hockey argues that the Nationals have lost their unique association with farming communities. The National Party (then Country Party) was formed in 1920 to represent the interests of non-city people, particularly farmers. Now, however, demographics are working against the Nationals. The number of farmers and agricultural workers has declined substantially; people in rural areas have migrated to large

regional towns; and relatively affluent retirees from the city are moving into former National Party seats on the New South Wales and Queensland coasts. National Party Federal Director Brad Henderson conceded to Polloffs in March that the Nationals face a huge challenge to remain viable. In the 1987 election, the Nationals won 19 seats in the federal Parliament and 11.52 percent of the national vote. In 2007, they won only 10 seats and 5.49 percent of the vote (NOTE: by contrast the Green Party won 7.79 percent of the vote). In terms of seats won, 2007 was the Nationals' worst election result.

¶4. (SBU) While there is a federal coalition between the Liberal and National parties, there is much less cooperation at the state level. The two parties in Victoria and West Australia are at each others throats, and in Queensland, where the National Party is stronger, the parties run separate campaigns in state elections. The announced retirement last week of National Party Federal MP Peter McGauran will likely trigger a June or July by-election in his Victorian seat of Gippsland. The by-election will be seen by some as a referendum on the Nationals future. While McGauran won with a 5.9 percent margin in 2007 and the National Party has a good local candidate, the Victorian Liberal Party is planning to run its own candidate and Prime Minister Kevin Rudd's continuing popularity threatens to give the ALP an extra boost.

AUSTRALIA'S CONSERVATIVES MUST UNITE

¶5. (SBU) A longstanding supporter of a merger is South Australian Senator and Shadow Defense Minister Nick Minchin, ironically one of Howard's strongest supporters. In a speech at the Young Liberal's National Conference in January, he maintained that conservatives could "no longer afford the luxury of two separate organizations on the right-hand side of Australian politics." He said the National and Liberal parties had to unite to compete with a resurgent ALP backed by the largesse of the unions. The business community was sick of funding two center-right parties, Minchin stated, and it was hoping to see a merger. He argued against the Queensland parties merging unilaterally, however, because it would just create a third mainstream center-right party. Minchin said national leadership would be required to get the state branches of the respective parties to agree to unite. Opposition and Liberal Party Leader Brendan Nelson has said he is sympathetic towards a merger but will wait for an internal review of the National Party, due to be handed down shortly, before committing to a position.

THE SKEPTICS

¶6. (C/NF) MP Christopher Pyne, like Minchin a South Australian but from the more moderate wing of the Liberal Party, told poloff's in February that he opposes a merger because the parties are too different. Pyne said city voters would desert the Coalition if the Liberals formed a party with the Nationals. The Nationals were a conservative party whose philosophy would be incompatible with the "liberalism" of the Liberal Party. Like Howard, Pyne maintained a merger could lead to the formation of another country-based party, as does former Cabinet Minister Tony Abbott who says "as a practical proposal it is fraught with peril." Liberal leadership aspirant Malcolm Turnbull has expressed doubt over whether a Queensland merger would increase overall support, while Queensland Liberal Senator Sue Boyce has said "Liberal does not equal conservative, nor should it ever."

COMMENT: A GOOD IDEA OR AN ACT OF DESPERATION?

¶7. (C/NF) A noted academic authority on the Liberal Party told us this week that conservatives are trying to decide how to position themselves politically against a cautious, center-right Prime Minister, and on-going internal reviews by

the Liberal and National parties are part of that process. There are two factors driving the merger proposal, both centered in Queensland. In theory, if the Liberal and National Parties both run a candidate in a federal parliamentary seat, their supporters will preference the other candidate in the second round. To a significant extent, that did not happen in the federal seat of Flynn in Queensland last November. Many Liberal voters preferenced the ALP candidate in the second round, and he narrowly won the seat. In Queensland state politics, the National Party holds more seats than the Liberal Party and their coalition is not as strong as it is in other jurisdictions. As a result, the parties do not present a united, stable opposition and therefore do not provide the voters with a clear alternative to the ALP.

18. (C/NF) There is significant opposition in both parties to a merger. In Victoria and Western Australia, particularly, the Liberals and Nationals relationships are tense. In addition, the merger issue cannot be divorced from the Liberal Party's factional and leadership issues. There is suspicion among some Liberal moderates, including Malcolm Turnbull's supporters, that Minchin (generally regarded as head of the Liberal Right) wants a merger because an influx of Nationals would drag the party to the right on social policy and make it more difficult for Turnbull to seize the leadership. If the conservatives do pursue a merger, it will be a lengthy process which will create grievances and bring to the surface longstanding rivalries. The ALP, meanwhile, as it did when the Coalition was last in office, will tell voters: "If you can't govern yourself, you can't govern the country."

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